USE OF TECHNICAL DATA RIGHTS AND PATENTS AS EVALUATION FACTORS

Issue. The Department of Defense (DoD) often includes evaluation criteria in source selections that penalize contractors simply because they are claiming rights in intellectual property (IP) to which they are entitled under law. Solicitations now regularly include a provision that a contractor's willingness to grant a minimum of Government Purpose Rights[1] (GPR) to technical data and computer software will be evaluated such that contractors and suppliers at all levels who refuse are penalized in source selection. This unfairly disadvantages innovative companies with robust investment programs, leading to a de facto low price technically acceptable approach regardless of the solicitation requirements. The Aerospace Industries Association (AIA) recommends that DoD be prohibited from evaluating a contractor's proposal based on the contractor's willingness to relinquish greater rights than the government is entitled to under the law. In addition AIA recommends that DoD be prohibited from requiring a listing of background inventions and patents that a contractor might use.

Discussion. DoD started the practice of evaluating a contractor's proposal based on its willingness to sell or relinquish technical data rights as an attempt to preserve its ability to compete subsystems and components over the entire system lifecycle. DoD is required to assess the technical data rights it will need over the life cycle of a program to enable it to compete subsystems when it makes sense. However, this is being done without regard for the requirements and framework established in 10 U.S.C. 2320. Instead of competing subsystems by use of technical data to which the DoD is already permitted to share among competitors, such as technical data relating to form, fit, or function and technical data necessary for operation, maintenance, installation, or training, the current practice impairs the rights of contractors and subcontractors. DoD makes sale or relinquishment of rights in technical data an effective condition for award of a contract by evaluation weightings up to 30%, or arbitrary plus ups of 15% of total price, for failure to sell or relinquish data rights of at least GPR to all technical data and computer software deliverables. This is harmful at all levels to the defense industrial base, as it results in innovative subcontractors at all levels not being selected by primes or higher level subcontractors due to negative evaluation consequences if rights in technical data are not relinquished.

While DoD's intent is to provide innovation through more frequent updates of subsystems and ensure affordable costs through competition, by coercing sale or relinquishment of data rights to the detailed design and manufacturing data of privately funded technologies, the result discourages participation in the defense industrial base and discourages innovation and

[1] When the Government obtains GPR in technical data or computer software, it can release or disclose such technical data or computer software outside the Government to any third party competitors, and authorize such parties to use, modify, reproduce, release, perform, display, or disclose the technical data or computer software for any U.S. government purpose, to include competitive procurements.

investment by those remaining in the defense industrial base. Such data rights demands are incompatible with industry return on investment models, which assume investment cost recovery through sales to multiple customers over the life of a product. DoD's goals of encouraging innovation and private investment can be accomplished without penalizing contractors that retain exclusive rights to the inner details of their subsystems and components.

DoD's new approach to coercing offerors to relinquish otherwise valid technical data rights is being done regardless of circumstances. No lifecycle cost analysis is performed showing what technical data rights are needed for what parts of a system over what period of time. There is no required assessment showing items likely to be upgraded through competition and no assessment of the cost and trade-offs in doing so. The approach is to warn a contractor that their proposal will be downgraded automatically unless they agree to provide at least GPR to full design data at all levels, both within an item as well as for its interfaces.

Evaluation of data rights as part of a competitive source selection disproportionately and negatively impacts those contractors investing in the most valuable technology, resulting in an unbalanced and unfair competitive field. Offerors, including suppliers at all levels, who have not invested private R&D funds to develop technology (and thus have no IP rights to protect) receive favorable IP evaluations, while offerors who are unwilling to relinquish broad IP rights in technologies developed and sustained with non-government funds are penalized and receive unfavorable evaluations. This has a negative effect on subcontractors as well, since the policy applies to all items included in a contractor's proposal.

Furthermore, because design concepts are often finalized many years after submission of proposals, data rights evaluations penalize those contractors having a more detailed technical baseline established at the time of proposal. Contractors without a design fully determined have no obligation to submit data rights specifics for technologies not yet determined to apply to their offering. Therefore, by penalizing those contractors offering privately funded technology with less than GPR, the competitive field is unbalanced and perversely favors contractors not yet knowing what they will offer.

The current practice undermines the intent of the statutory prohibition against requiring contractors or subcontractors to sell or relinquish data rights as a condition of responsiveness to a proposal in 10 U.S.C. 2320(a)(2)(F). This also leads to the ever-increasing government demands for detailed design data and the "inner workings" of all modules, with severe consequences for those unwilling to grant GPR (i.e., have their technical data provided to direct competitors). This overreaching is inconsistent with an approach to intellectual property rights, life cycle sustainment, and open architecture that require planning and analysis of multiple factors. (See also AIA paper on open architecture and other AIA recommendations on planning for technical data rights). It also decreases the likelihood that contractors will continue to invest to innovate and maintain modules over longer periods of time and will deter commercial and other nontraditional companies from doing business with the government. These outcomes undermine DoD's stated goal of encouraging privately-funded innovation.

Getting the benefits of competition without penalizing innovative companies can be accomplished through the use of competition that enables companies to truly compete with

innovative solutions and technologies. Interchangeable end items encourage private investment and enable ROI models compatible with industry, including commercial companies. Using already available rights in technical data enables use of such competing, interchangeable end items.

Recommendations. AIA proposes that 10 U.S.C. 2320(a)(2)(F) be amended to prevent unfair and improper use of broad relinquishment of technical data rights as a proposal evaluation factor. As discussed above, there are several provisions that already provide for situations in which the government obtains broad licenses to technical data, and these should be used for obtaining needed rights in data. 10 U.S.C. 2320(a)(2)(F)(i)(II) already addresses technical data relating to form, fit, or function or technical data necessary for operation, maintenance, installation, or training (other than detailed manufacturing or process data) allowing rights to any such technical data to be evaluated. Similarly, 10 U.S.C. 2320(a)(2)(F)(i)(III) addresses the conditions described in subparagraph (D). AIA's FY17 NDAA legislative proposal would modify Section 815(a) of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2012, subparagraph (D) to include technical data pertaining to the external interface of an end item with other end items in connection with field or organizational-level segregation or reintegration. Therefore, the open architecture benefits to facilitate interchangeable end items are provided without harmful, indiscriminate penalizing of privately maintained modules.

AIA also proposes corresponding amendments to 10 U.S.C. 2305(d) to align with the above interchangeable end item concept and resolve a potential inconsistency between 10 U.S.C. 2305(d) and 10 U.S.C. 2320, thereby restoring incentives to invest for industry at all tiers and for commercial item suppliers.

Further, as noted, DoD has begun to require that contractors, as a condition of contract award, list all background inventions and patents which the contractor would use. While DoD believes this listing will allow them to evaluate the true cost of long term sustainment, it frustrates the legislative purpose of 28 U.S.C. 1498(a). Specifically, contractors at the proposal phase must now determine all applicable patents being used on the proposed product or service, and also those used by its supply base. As noted above, final design concepts are often arrived at many years after submission of the proposal. Therefore, proposal invention and patent listings may have no relevance to the final design concept. As a result, such invention and patent listings would not be useful to DoD in assessing potential patent infringement liability pursuant to 10 USC 1498. Further, 28 U.SC. 1498(a) was enacted at the request of the DoD to specifically allow the Government to choose the most promising technology without regard for any patents that might be infringed.[2] Finally, the legal analysis and effort involved in preparing these lists can be significant, making these lists of patents and inventions both burdensome and unnecessary in the context of proposals. Therefore, AIA proposes a change to 10 U.S.C. 2320(a)(2)(F) to prevent requirements for listing background inventions.

[2] See *Motorola, Inc. v. United States*, 729 F.2d 765 (Fed. Cir. 1984); *See Richmond Screw & Anchor Co. v. United States*, 275 U.S. 331 (1928) (discussing history of predecessor of 28 U.S.C. 1498(a)).

REDLINE TEXT VERSION OF PROPOSED CHANGES

Sec. 2320. Rights in technical data

(a) …

(2) Such regulations shall include the following provisions:

…

(F) A contractor or subcontractor (or a prospective contractor or subcontractor) may not be required, as a condition of being responsive to a solicitation or as a condition for the award of a contract*, nor may be evaluated based on its willingness--*

(i) to sell or otherwise relinquish to the United States any rights in technical data except--

(I) rights in technical data described in subparagraph (A) for which a use or release restriction has been erroneously asserted by a contractor or subcontractor;

(II) rights in technical data described in subparagraph (C); or

(III) under the conditions described in subparagraph (D); or

(ii) to refrain from offering to use, or from using, an item or process to which the contractor is entitled to restrict rights in data under subparagraph (B*); or*

(iii) to identify, license or offer to license rights in inventions or patents.

Sec. 2305. Contracts: planning, solicitation, evaluation, and award procedures

(d) …

(1)(B)

(ii) With respect to end items that are likely to be required in substantial quantities during the system's service life, proposals to incorporate interfaces in the design of the major system to enable ~~items which~~ the United States ~~will be able~~ to competitively acquire interchangeable end items ~~competitively~~ in the future.

(2) (B) Proposals referred to in the first sentence of subparagraph (A) are proposals identifying opportunities to ensure that the United States will be able to obtain on a competitive basis interchangeable end items procured in connection with the system that are likely to be reprocured in substantial quantities during the service life of the system. Proposals submitted in response to such requirement may include the following:

(i) Proposals to provide to the United States the right to use interface technical data to be provided under the contract for competitive reprocurement of ~~the~~ an interchangeable end item, together with the cost to the United States, if any, of acquiring such technical data and the right to use such data.

(ii) Proposals for the qualification or development of multiple sources of supply for ~~the~~ an interchangeable end item.

(4) (B) Subject to 10 U.S.C. 2320(a)(2)F), in ~~In~~ considering offers in response to a solicitation requiring proposals described in paragraph (1)(B) or (2)(B), the head of an agency shall base any evaluation of items developed exclusively at private expense on an analysis of the total value, in terms of innovative design, life-cycle costs, and other pertinent factors, ~~of and~~ such as the availability of interfaces to enable interchangeable ~~incorporating such~~ end items in the system.